Responding to today's challenges Learning from yesterday's Preparing for tomorrow's

THE STOP & SHOP COMPANIES, INC.
ANNUAL REPORT
FOR THE YEAR ENDED
JANUARY 31, 1987

The Stop & Shop Companies, Inc. is a retail corporation headquartered in Boston, Massachusetts. Founded in 1914 as a chain of food stores, the Company entered the discount department store business with its purchase of Bradlees in 1961.

Today, the Company operates 162 Bradlees Discount Department Stores in New England, New York, New Jersey, Pennsylvania, Delaware, Maryland, and Virginia; 113 Stop & Shop Supermarkets in Massachusetts, Rhode Island, Connecticut, and New York; and the Manufacturing Division which includes the Marlboro Manufacturing Facility, a carbonated beverage plant, commissary, dairy, household detergent plant, and recycling center.

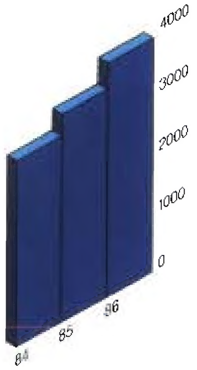
The Stop & Shop Companies, Inc. employs approximately 46,000 people.

COMPARATIVE HIGHLIGHTS
The Stop & Shop Companies, Inc., and Subsidiaries

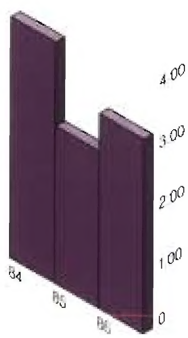
(Dollars in thousands except those stated on a per share basis)	Fiscal Year Ended January 31, 1987	February 1, 1986*	February 2, 1985* (53 weeks)
RETAIL SALES			
Stop & Shop Supermarkets	**$1,999,364**	$1,809,451	$1,657,563
Bradlees Department Stores exclusive of licensee sales	**1,873,055**	1,620,057	1,404,648
Other	—	—	13,717
Total retail sales	**$3,872,419**	$3,429,508	$3,075,928
EARNINGS			
Continuing operations	**$ 44,400**	$ 35,376	$ 52,829
Discontinued operations	**(6,000)**	(5,076)	2,016
Net earnings	**$ 38,400**	$ 30,300	$ 54,845
EARNINGS FROM CONTINUING OPERATIONS TO SALES	**1.15%**	1.03%	1.72%
PRIMARY EARNINGS PER COMMON SHARE			
Continuing operations	**$ 3.20**	$ 2.57	$ 4.43
Discontinued operations	**(.43)**	(.37)	.17
Net earnings per share—primary	**$ 2.77**	$ 2.20	$ 4.60
FULLY DILUTED EARNINGS PER COMMON SHARE			
Continuing operations	**$ 3.20**	$ 2.57	$ 3.97
Discontinued operations	**(.43)**	(.37)	.15
Net earnings per share—fully diluted	**$ 2.77**	$ 2.20	$ 4.12
CASH DIVIDENDS	**$ 15,247**	$ 14,817	$ 11,036
Per share (rounded to nearest cent)	**$ 1.10**	$ 1.08	$ .94
WORKING CAPITAL	**$ 243,260**	$ 230,751	$ 178,769
CURRENT RATIO	**1.68 to 1**	1.67 to 1	1.54 to 1
STOCKHOLDERS' EQUITY	**$ 431,028**	$ 405,670	$ 388,830
BOOK VALUE PER SHARE AT YEAR END	**$ 31.01**	$ 29.37	$ 28.28
STORES IN OPERATION AT YEAR END (continuing operations)			
Stop & Shop Supermarkets	**113**	114	119
Bradlees Department Stores	**162**	158	132
Total	**275**	272	251

*Restated to segregate discontinued operations

RETAIL SALES
(in millions)



NET EARNINGS FROM CONTINUING OPERATIONS PER SHARE— FULLY DILUTED



STOCKHOLDERS' EQUITY
(in millions)

AVRAM J. GOLDBERG
Chairman of the Board and Chief Executive Officer of the Company

CAROL R. GOLDBERG
President and Chief Operating Officer of the Company

For The Stop & Shop Companies, 1986 was an eventful, challenging and succcessful year. The actions taken and the financial results built the foundation for an even better future. Both our core divisions, Supermarkets and Bradlees, made excellent progress; and, in many ways, we actually changed the composition of our company. We sold our Medi Mart Drug Store and C.B. Perkins divisions, made the decision to close Almys, and initiated a major restructuring program to reduce dramatically our overhead and operating expenses.

Earnings for the year from continuing operations were $44,400,000, compared with $35,376,000 in 1985. Earnings per share from continuing operations this year were $3.20, compared with $2.57 last year. Total earnings, including discontinued operations, were $38,400,000 or $2.77 per share versus $30,300,000 or $2.20 per share in 1985.

Sales for the year were $3,872,000,000, a 13% increase over sales of $3,430,000,000 last year.

It is worth noting that repeal of the investment tax credit, retroactive to January 1, 1986, increased our effective (federal and state) tax rate measurably, reducing our reported profit by approximately 47¢ per share in 1986. We anticpate a 45% effective tax rate for 1987.

OPERATING COMPANY RESULTS 1986 was another outstanding year for our Stop & Shop Supermarket Company. Sales increased 10% to $1,999,000,000, with a 6% gain in comparable stores. Operating profit contribution was $53,462,000, a substantial improvement over 1985. The ratio of operating profit contribution to sales increased from 2.4% in 1985 to 2.7% this year, a level at which we are very satisfied.

Our Supermarket Company continues to win share of market and produce profitable results in a highly competitive

geographic area. In addition to the ongoing efforts of outstanding people, this success record stems from two critical factors: the competitive strength of the Super Stop & Shops; and the expert use of systems and electronics in managing the business. We opened eight superstores in 1986 and plan to open eight in 1987, bringing the total to 40. Shortly after the close of the fiscal year, we folded our Manufacturing Division into the Supermarket Company, giving us a more efficient and cost effective management structure. Continued investment in superstores and systems will fuel the Supermarket Company's progress in 1987 and beyond.

Bradlees' performance improved measurably in 1986. Sales were $1,873,000,000, a 16% increase over 1985, with comparable stores posting a 5% gain. Contribution to profit was $56,574,000 versus $30,698,000 in 1985, after absorbing a $5,400,000 negative swing in LIFO compared with last year.

The special Bradlees merchandising program can now be termed a success. Sales momentum, which began to build in late 1985, carried over and strengthened in the front half of 1986. As Bradlees fine-tuned the program throughout the year, we maintained the sales increases that had been achieved. At the same time, Bradlees placed much greater emphasis on inventory management and control. Inventory was on plan throughout the year; and clearance markdowns and inventory shortages both improved markedly.

As we move into 1987, in a very important step, Bradlees has fundamentally lowered its overhead expense structure. This will enable us to continue to grow in sales and profit, in a highly competitive environment, where customers appear to be equally interested in quality merchandise and low prices. We expect continued improvement in Bradlees' performance in 1987.

DIVESTITURE AND RESTRUCTURING 1986 was a year of change for us. The divestiture of Medi Mart, C.B. Perkins and Almys will allow us to focus our energies and resources on our two core businesses.

Early in the year, we sold our Medi Mart Drug Store and C.B. Perkins Divisions. Although both had been profitable, they had not become significant contributors to our bottom line. The gain on the disposal of these divisions amounted to $10,900,000, or 79¢ per share after taxes.

As the year drew to a close, we carefully examined Almys' performance through the Holiday Season, and the updated projections for 1987 and 1988. Sales were up strongly in the back half of 1986, and although we sustained a substantial operating loss for the year, we still believed we could build Almys into a solid company. However, the amount of additional money, time and management attention required would be substantial. We did not believe that additional investment was warranted. Therefore, we decided to divest Almys by closing the stores and selling the store leases individually. A charge of $12,200,000 or 88¢ per share has been allotted to provide for the closing.

In January of this year, we initiated a major restructuring program to reduce annual overhead and non-store operating expenses. We are eliminating approximately 450 positions, over 14% of our non-store management staff; we are integrating many corporate and operating company functions to achieve more effective management and faster decision making; and we will relocate our corporate offices to the Bradlees

complex in Braintree, MA. Our annual savings from this program will approximate $14 million.

MANAGEMENT ORGANIZATION AND BOARD OF DIRECTORS In 1986, we added three new Directors to our Board: Joan T. Bok, Chairman, New England Electric System; Charles W. Schmidt, Senior Vice President and Group Executive, Raytheon Company; and Lewis G. Schaeneman, Jr., Senior Vice President, The Stop & Shop Companies, Inc. and President of the Stop & Shop Supermarket Company.

During the year, we announced several important management changes. In corporate management there were three major promotions to senior vice president: Donald J. Comeau, Senior Vice President with responsibility for personnel; Joseph D. McGlinchey, Senior Vice President, Treasurer and Chief Financial Officer; and Samuel W.W. Mandell, Senior Vice President and General Counsel.

At Bradlees, earlier in the year, George M. Granoff was named executive vice president, with responsibility for all the merchandising divisions. As we entered 1987, he assumed additional responsibilities in Bradlees for stores, store operations, marketing and sales promotion. James Folino was promoted to vice president and director of stores. Joining the Company were Herbert R. Douglas as vice president and general merchandise manager, home fashions; and Michael F. Parker, as vice president, merchandise planning and allocation.

We should give special mention to the retirement, after decades of service, of two corporate officers: Anthony DiNardo, Senior Vice President; and Albert S. Frager, Senior Vice President, Treasurer and Chief Financial Officer. They were both known and respected throughout our Company, and all of us are truly grateful to them for their contribution to our success. Mr. Frager will remain a member of the Board of Directors.

In September, 1986, the Board of Directors adopted a Shareholder Rights Plan, to enable our stockholders to realize the long-term value of their investment in The Stop & Shop Companies. The plan assures that all stockholders receive fair and equal treatment in the event of any proposed takeover of the Company, and guards against partial tender offers and other abusive takeover tactics.

In 1986, we completed a capital investment program of $138 million, and in 1987 we plan an investment of approximately $150 million, including leased equipment.

Thus we are pleased with the accomplishments of all the people of The Stop & Shop Companies in 1986, and we thank you, our Stockholders, for your continued support. In this letter we have referred to the challenges we experienced; we believe our people met them successfully and have taken the hard steps necessary to assure the long-term health of your Company. We are confident that 1987 will bring continued success.

Avram J. Goldberg
Avram J. Goldberg
Chairman of the Board and
Chief Executive Officer

Carol R. Goldberg
Carol R. Goldberg
President and
Chief Operating Officer

The heritage of our Company is a particularly proud one, based on a tradition of teamwork, innovation, and a commitment to excellence. We will continue to build on this tradition as we conduct our business aggressively and competitively, with an eye to the future.

Bradlees' investments for the future continued in 1986. We took a series of steps to drive for business, improve customer service, streamline operations,

We will aggressively pursue our long-term strategy to increase sales and profits by targeting value, quality, selection and service.

enhance technology, and better manage our inventory. Our merchandising strategy will continue to focus on sharp prices for brand name and identifiable hard lines and apparel, and on aggressive promotions.

To strengthen customer service, we have installed Help Phones chainwide. At any one of 18 in-store locations, customers can call for assistance with specific items or categories. The system is providing a valuable service to Bradlees' customers.

To date, we have installed new electronic point of sale systems in 70 stores. We are upgrading the P.O.S. equipment in all of our stores to afford more timely merchandise information and faster checkout.

Store development continued at a healthy pace. We opened eight new stores and remodeled seven, and by year-end, Bradlees had grown to 162 stores. Ten new stores are planned for 1987, including three sites in North Carolina, marking Bradlees' entrance into a new market.


Need Help? DIAL 70
Bradlees has it!
QUALITY AT LOW PRICES!
CHECK US OUT!
SALE
14.99
SALE
34.99
Low prices everyday
on quality & brand names!
CHECK US OUT!
LES JARDINES
HOME BEAUTIFUL


STOP&SHOP
towels

For the Supermarket Company, 1986 was a year of exceptional performance and solid growth. Our firm commitment to the development and refinement of Super Stop & Shops, along with continuing investments in people and technology, resulted in another record-breaking year for sales and contribution to profit. We opened eight Super Stop & Shops in 1986, and plan to open eight in 1987. Thirty-two of our 113 supermarkets are superstores.

We have developed and refined the proper mix of management tools to enhance our competitive advantage in an increasingly complex environment.

In early 1986, we embarked upon the most ambitious market research effort our Company has ever undertaken, and developed a customized strategic marketing plan that is enabling us to become a truly marketing-driven company.

Highly detailed demographic and psychographic profiles allow us to define and anticipate emerging consumer trends. Advanced information systems give us the flexibility to adjust individual stores, product mix and advertising with agility in today's rapidly changing marketplace. The plan we have implemented permeates every level of our business; enhances our competitive advantage; and will fuel our direction for the future.

During 1986, the Manufacturing Division completed several important projects to service our growing Supermarket Company. We doubled the size of our dairy and installed state-of-the-art processing and filling equipment.

We opened our new Marlboro Manufacturing Facility to produce frozen unbaked products that are freshly baked in our in-store bake shops, and fresh baked goods for our bakery shelves.

Furthermore, we expanded the extensive product line at our Readville Manufacturing Facility, which services our deli departments, to include six varieties of wafer sliced cooked meats.

1986 was a profitable year for our Walpole Recycling Plant, which benefitted from a higher market price for recycled corrugated cardboard.

CONTENTS

FIVE-YEAR SUMMARY OF SALES AND OPERATING PROFIT CONTRIBUTION BY MAJOR SEGMENTS
The Stop & Shop Companies, Inc., and Subsidiaries

(Dollars in thousands)	January 31, 1987	
RETAIL SALES		
Bradlees Department Stores	$1,873,055	48.4%
Other general merchandise stores	—	—
Total general merchandise stores	1,873,055	48.4
Supermarkets	1,999,364	51.6
Total retail sales	$3,872,419	100.0%
OPERATING PROFIT CONTRIBUTION		
Bradlees Department Stores	$ 56,574	51.4%
Other general merchandise stores	—	—
Total general merchandise stores	56,574	51.4
Supermarkets	53,462	48.6
Total operating profit contribution	110,036	100.0%
UNALLOCATED EXPENSES		
Interest expense (net)—other than mortgage notes and capital leases	16,314	
Restructuring costs	750	
Other expenses	4,847	
Raxton Corp. disposition	—	
Total unallocated expenses	21,911	
Earnings From Continuing Operations Before Income Taxes	88,125	
Federal and State Income Taxes	43,725	
Earnings From Continuing Operations	44,400	
(Loss) Earnings From Discontinued Operations, Net of Applicable Income Taxes	(6,000)	
NET EARNINGS	$ 38,400	
IDENTIFIABLE ASSETS		
Bradlees Department Stores	$ 669,602	
Other general merchandise stores	—	
Supermarkets	392,206	
Other unallocated	62,577	
Discontinued operations	30,134	
Total	$1,154,519	
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Bradlees Department Stores	$ 72,151	
Other general merchandise stores	—	
Supermarkets	60,763	
Discontinued operations	5,511	
Total	$ 138,425	
DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT AND LEASE ACQUISITION COSTS		
Bradlees Department Stores	$ 43,048	
Other general merchandise stores	—	
Supermarkets	29,133	
Total	$ 72,181	
SQUARE FOOTAGE—SALES AREA AT YEAR END (in thousands)		
Bradlees Department Stores	11,642	
Other general merchandise stores	—	
Supermarkets	2,949	
Total	14,591	

*Restated to segregate discontinued operations

Fiscal Year Ended							
February 1, 1986*		February 2, 1985* (53 weeks)		January 28, 1984*		January 29, 1983*	
$1,620,057	47.2%	$1,404,648	45.7%	$1,182,815	44.8%	$ 871,636	39.5%
—	—	13,717	0.4	33,162	1.2	35,635	1.6
1,620,057	47.2	1,418,365	46.1	1,215,977	46.0	907,271	41.1
1,809,451	52.8	1,657,563	53.9	1,425,251	54.0	1,298,915	58.9
$3,429,508	100.0%	$3,075,928	100.0%	$2,641,228	100.0%	$2,206,186	100.0%
$ 30,698	41.1%	$ 85,229	75.4%	$ 80,460	83.4%	$ 50,474	80.6%
—	—	(1,685)	(1.5)	(1,720)	(1.8)	(1,391)	(2.2)
30,698	41.1	83,544	73.9	78,740	81.6	49,083	78.4
43,942	58.9	29,482	26.1	17,757	18.4	13,555	21.6
74,640	100.0%	113,026	100.0%	96,497	100.0%	62,638	100.0%
12,123		8,833		8,011		2,971	
—		—		—		—	
5,741		5,025		5,224		6,058	
—		2,500		—		—	
17,864		16,358		13,235		9,029	
56,776		96,668		83,262		53,609	
21,400		43,839		35,403		21,631	
35,376		52,829		47,859		31,978	
(5,076)		2,016		2,942		2,845	
$ 30,300		$ 54,845		$ 50,801		$ 34,823	
$ 602,663		$ 488,559		$ 418,667		$ 262,872	
—		582		6,193		6,500	
344,397		287,549		245,399		195,394	
39,199		36,275		75,905		102,306	
125,729		119,553		55,394		50,593	
$1,111,988		$ 932,518		$ 801,558		$ 617,665	
$ 70,208		$ 45,513		$ 66,723		$ 32,341	
—		99		466		637	
71,412		45,750		49,232		33,156	
15,129		16,937		4,910		3,209	
$ 156,749		$ 108,299		$ 121,331		$ 69,343	
$ 35,544		$ 28,226		$ 21,442		$ 15,077	
—		608		1,091		983	
25,224		21,935		18,076		14,564	
$ 60,768		$ 50,769		$ 40,609		$ 30,624	
11,372		9,273		8,882		7,348	
—		—		211		263	
2,839		2,659		2,450		2,399	
14,211		11,932		11,543		10,010	

RESULTS OF OPERATIONS

During 1986, the Company sold its Medi Mart Drug Store and Charles B. Perkins divisions and decided to dispose of Almys Department Stores. Operations for these divisions for 1986, 1985 and 1984 have been reclassified as discontinued operations. Accordingly, the following discussion and analysis refers to the continuing operations of Bradlees Discount Department Store Company and the Stop & Shop Supermarket Company.

SALES

Consolidated retail sales increased 13% in 1986, 11% in 1985 and 16% in 1984. Comparable stores (those open a full fiscal year) contributed 6% of the sales increases in 1986 and 1985. The remaining increases were from new and/or expanded stores. Inflation had no significant impact on sales growth during this period.

Bradlees' sales increased 16% in 1986 and 15% in 1985. Comparable stores contributed 5% of the sales increases in 1986 and 1985. Bradlees' percentage of consolidated sales increased to 48% in 1986 from 46% in 1984. The comparable store sales increases were stimulated in the last half of 1985 and the first half of 1986 by Bradlees' aggressive merchandising program. The remainder of the increase in sales was due primarily to the opening or acquisition of new stores. Sales of the Supermarket Company increased 10% in 1986 and 9% in 1985. Comparable stores contributed 6% of the sales increase in 1986 and 3% of the increase in 1985. Sales increases in 1986 resulted primarily from new superstores and the maturity of existing superstores. The Supermarket Company's share of consolidated sales was 52% in 1986 compared with 54% in 1984.

OPERATING PROFIT BY SEGMENT

Operating profits for Bradlees were $56.6 million in 1986 compared with $30.7 million in 1985 and $85.2 million in 1984. The increase in 1986 resulted from a major emphasis on all aspects of inventory management and increased sales at improved gross margin rates. The decrease in 1985 from 1984 was due primarily to the program to increase sales and customer count which resulted in lower gross margin rates.

Operating profits of the Supermarket Company improved in 1986 to $53.5 million compared with $43.9 million in 1985 and $29.5 million in 1984. These trends reflect new superstore openings and maturity of superstores throughout this period. The significant improvement in 1986 was due to the higher sales levels combined with improvements in gross margin rates. Improved gross margin rates were achieved through more efficient merchandise procurement as well as an increase in the mix of general merchandise goods. The improvement in 1985 over 1984 was similarly due to increases in sales and gross margin rates.

COST OF GOODS SOLD, BUYING AND WAREHOUSING COSTS

The ratio of cost of goods sold to consolidated sales was 73.7% in 1986 compared with 74.9% in 1985 and 74.4% in 1984. The decrease in the ratio between 1986 and 1985 was due to the higher gross margin rates of both Bradlees and the Supermarket Company. The slight increase in ratio from 1984 to 1985 was the result of Bradlees' lower gross margins. The effect of the LIFO inventory adjustment did not impact these comparisons.

OPERATING EXPENSES

Store operating, selling, general and administrative expenses as a percent of sales were 21.2% in 1986, 20.8% in 1985 and 19.9% in 1984. The gradual increase in the ratios from year to year is due primarily to the Bradlees expansion program and the Supermarket Company's program of opening superstores, which added 40 Bradlees Discount Department Stores and 24 Stop & Shop superstores over the last three years.

OTHER EXPENSES

Depreciation and amortization expense, as a percent of sales has gradually increased to 1.9% in 1986 from 1.7% in 1984 due to the number of new stores opened and the remodeling of existing stores.

Net interest expense was $37.6 million in 1986 compared with $29.7 million in 1985 and $23.5 million in 1984. As a percent of sales, these amounted to 1.0%, .9% and .8% in 1986, 1985 and 1984, respectively. The increase in the ratio in 1986 is due to a full year interest on the $125 million 10¾% ten year notes sold in July, 1985.

During 1986, the Company announced that it will take certain steps to reduce annual overhead and non-store operating expenses as part of a plan to increase overall profitability. This restructuring program includes the elimination of positions, the integration of corporate and operating company functions, and the relocation of the corporate offices. The Company charged 1986 earnings $750,000 to provide for the one-time costs associated with the restructuring.

RETAIL SALES
(in millions)

NET EARNINGS FROM CONTINUING OPERATIONS
(in millions)

INCOME TAXES

The provision for income taxes results in an effective tax rate of 50%, 38% and 45% in 1986, 1985 and 1984, respectively. The repeal of the investment tax credit retroactive to January 1, 1986 increased the effective tax rate in 1986 in relation to 1985 and 1984. The loss of the investment tax credit increased income tax expense by approximately $6.5 million or 47¢ per share in 1986.

NET EARNINGS

Net earnings were $38.4, $30.3 and $54.8 million in 1986, 1985 and 1984, respectively. The Company's earnings from continuing operations were $44.4 million in 1986, $35.4 million in 1985 and $52.9 million in 1984. The percent of net earnings from continuing operations to sales were 1.1%, 1.0% and 1.7% for 1986, 1985 and 1984, respectively.

DISCONTINUED OPERATIONS

The gain on the sale of the Medi Mart Drug Store and Charles B. Perkins divisions amounted to $10,900,000 or 79¢ per share after taxes. Discontinued operations also includes an after tax charge of $12,200,000 or 88¢ per share for the closing of Almys.

CAPITAL ADDITIONS

Additions to property, plant and equipment including all capital lease assets were $138 million, $157 million and $108 million in 1986, 1985 and 1984, respectively. The additions were primarily for fixtures and equipment for new and remodeled stores. During 1986, Bradlees opened 8 new stores and remodeled 7 stores. The Supermarket Company opened 8 new superstores and remodeled 2 conventional stores. Lease acquisition costs were $27 million and $13 million in 1985 and 1984, respectively. The 1985 amounts relate to the cost of Bradlees acquiring the 18 Jefferson Ward stores in July, 1985.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Funds provided from net earnings and non-cash charges to earnings, representing the Company's primary source of liquidity, were $134 million in 1986, $98 million in 1985 and $107 million in 1984, totaling $339 million for the three years. During this three year period, these funds were used for working capital purposes of $107 million, payment of dividends of $41 million and contributed toward capital additions, lease acquisition and other costs which totaled $440 million. The remaining cash needs were financed principally through debt, capital lease financing and with proceeds from the disposal of the assets of discontinued operations.

In 1986, the Company's working capital position was favorably impacted by the increase in net earnings and non-cash charges and through the proceeds from the sale of the Medi Mart Drug Store and Charles B. Perkins divisions. Cash and short-term investment balances at the end of 1986, 1985 and 1984 were $57 million, $35 million and $49 million, respectively. The ratio of current assets to current liabilities was 1.68, 1.67 and 1.54 at the end of 1986, 1985 and 1984, respectively. Working capital amounted to $243 million, $231 million and $179 million at the end of each of the three years, respectively. There were no short-term borrowings outstanding at the end of the last three fiscal years. Unused lines of credit totaled $283 million as of January 31, 1987, including a $100 million Revolving Credit Agreement.

The seasonality of Bradlees business causes working capital requirements to vary during the year. These working capital requirements are normally financed through short-term borrowings under lines of credit arrangements. These borrowings reached a maximum of $41 million and $65 million and averaged $7 million and $18 million in 1986 and 1985, respectively. The decrease in borrowings compared to 1985 mainly resulted from cash generated from the sale of the Medi Mart Drug Store and Charles B. Perkins divisions. During 1986, average short-term investments were $32 million compared to $21 million in 1985.

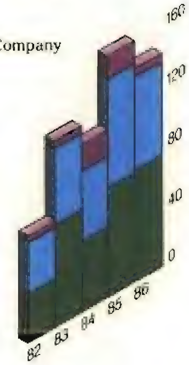
Capital Resources During 1986, there were no significant changes in total long-term debt and capitalized lease obligations.

In July, 1985 the Company raised $125 million through public sale of 10¾% ten year notes, a portion of which was used for the acquisition of the Jefferson Ward stores.

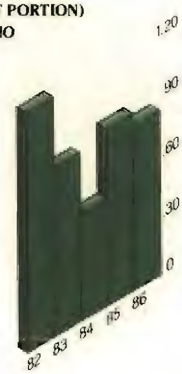
The ratio of long-term debt and obligations under capital leases (less current portion) to equity was .81 at the end of 1986 compared with .87 and .53 at the end of 1985 and 1984. The increase in the ratio from 1984 to 1985 is a result of the sale of the 10¾% notes.

The Company expects that capital requirements will continue to be funded through a combination of internally generated funds and periodic external financing through similar sources as obtained in the past. In addition, the disposal of net assets of Almys during 1987 will provide a source of cash.

CAPITAL ADDITIONS INCLUDING CAPITAL LEASE ASSETS
(in millions)
Other
Supermarket Company
Bradlees



LONG TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES (LESS CURRENT PORTION) TO EQUITY RATIO



SUPPLEMENTARY INFORMATION—SUMMARY OF QUARTERLY RESULTS

(Dollars in thousands except those stated on a per share basis)	First 16 Weeks	Second 12 Weeks	Third 12 Weeks	Fourth 12 Weeks	Full 52 Weeks
FISCAL YEAR ENDED JANUARY 31, 1987					
Retail Sales	**$1,063,098**	**820,382**	**894,162**	**1,094,777**	**3,872,419**
Earnings from continuing operations	**$ 5,942**	**5,063**	**8,405**	**24,990**	**44,400**
(Loss) earnings from discontinued operations	**$ (2,042)**	**8,937**	**(805)**	**(12,090)**	**(6,000)**
Net earnings	**$ 3,900**	**14,000**	**7,600**	**12,900**	**38,400**
Earnings per share					
Continuing operations	**$ .43**	**$ .36**	**$ .61**	**$ 1.80**	**$ 3.20**
Discontinued operations	**(.15)**	**.65**	**(.06)**	**(.87)**	**(.43)**
	$ .28	**$ 1.01**	**$ .55**	**$ .93**	**$ 2.77**
FISCAL YEAR ENDED FEBRUARY 1, 1986*					
Retail Sales	$ 900,265	723,593	809,269	996,381	3,429,508
Earnings from continuing operations	$ 7,954	135	7,066	20,221	35,376
(Loss) from discontinued operations	$ (1,054)	(1,335)	(2,366)	(321)	(5,076)
Net earnings	$ 6,900	(1,200)	4,700	19,900	30,300
Earnings per share					
Continuing operations	$ .58	$ .01	$ .51	$ 1.46	$ 2.57
Discontinued operations	(.08)	(.10)	(.17)	(.02)	(.37)
	$ .50	$ (.09)	$ .34	$ 1.44	$ 2.20

Quarterly per share amounts may not total the full 52 weeks amount due to changes in the number of shares outstanding.
*Restated to segregate discontinued operations, see notes to consolidated financial statements.

MARKET PRICE OF COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

	Market Price Range			Dividends		
	1986	1985	1984	**1986**	1985	1984
First 16 Weeks	**$55¼–40**	47¼–41	43¾–32¼	**$ .275**	$ .25	$.1875
Second 12 Weeks	**$56⅝–42¾**	51½–37⅜	53⅛–35	**.275**	.275	.25
Third 12 Weeks	**$56⅝–40¾**	40⅜–34¼	50 –43⅛	**.275**	.275	.25
Fourth 12 (13) Weeks	**$61¾–48**	42 –35⅝	46 –36⅝	**.275**	.275	.25
Full 52 (53) Weeks				**$1.100**	$1.075	$.9375

Stock exchange listings:
Boston Stock Exchange and New York Stock Exchange; Ticker symbol—SHP
Approximate number of stockholders at March 2, 1987: 5,922
Restrictions on ability to pay cash dividends: See Long-Term Debt in notes to consolidated financial statements.

FIVE-YEAR SELECTED FINANCIAL DATA

The Stop & Shop Companies, Inc., and Subsidiaries

(Dollars and shares in thousands except those stated on a per share basis)	Fiscal Year Ended January 31, 1987	February 1, 1986*	February 2, 1985* (53 weeks)	January 28, 1984*	January 29, 1983*
OPERATING RESULTS					
Retail sales	**$3,872,419**	3,429,508	3,075,928	2,641,228	2,206,186
Earnings from continuing operations before income taxes	**$ 88,125**	56,776	96,668	83,262	53,609
Federal and state income taxes	**$ 43,725**	21,400	43,839	35,403	21,631
Earnings from continuing operations	**$ 44,400**	35,376	52,829	47,859	31,978
(Loss) earnings from discontinued operations, net of income taxes	**$ (6,000)**	(5,076)	2,016	2,942	2,845
Net earnings	**$ 38,400**	30,300	54,845	50,801	34,823
PER SHARE AMOUNTS					
Earnings from continuing operations—primary	**$ 3.20**	2.57	4.43	4.46	3.15
Earnings from continuing operations—fully diluted	**$ 3.20**	2.57	3.97	3.87	3.02
Net earnings—primary	**$ 2.77**	2.20	4.60	4.73	3.43
Net earnings—fully diluted	**$ 2.77**	2.20	4.12	4.10	3.29
Cash dividends (rounded to nearest cent)	**$ 1.10**	1.08	.94	.73	.59
Book value at year end	**$ 31.01**	29.37	28.28	24.54	17.70
BALANCE SHEET DATA					
Inventories	**$ 454,939**	481,650	410,130	340,297	251,856
Working capital	**$ 243,260**	230,751	178,769	171,192	148,222
Additions to property, plant and equipment	**$ 138,425**	156,749	108,299	121,331	69,343
Total assets	**$1,154,519**	1,111,988	932,518	801,558	617,665
Long-term debt less current portion					
For land and buildings	**$ 61,187**	64,635	61,732	44,637	40,243
For other	**$ 152,531**	162,893	47,168	104,279	102,750
Obligations under capital leases less current portion					
For buildings and improvements	**$ 114,884**	99,638	72,696	62,430	56,708
For equipment	**$ 18,888**	27,139	23,598	23,784	14,114
Stockholders' equity	**$ 431,028**	405,670	388,830	284,611	181,455
Shares of common stock outstanding	**13,898**	13,810	13,748	11,600	10,253
FINANCIAL STATISTICS AND RATIOS					
Sales increase over prior year	**12.91%**	11.50%	16.46%	19.72%	7.98%
Earnings from continuing operations before income taxes to sales	**2.28%**	1.66%	3.14%	3.15%	2.43%
Earnings from continuing operations to sales	**1.15%**	1.03%	1.72%	1.81%	1.45%
Earnings from continuing operations before income taxes to average equity	**21.06%**	14.29%	28.71%	35.73%	32.20%
Net earnings to average equity	**9.18%**	7.63%	16.29%	21.80%	20.92%
Federal and state income taxes—effective rate	**49.62%**	37.69%	45.35%	42.52%	40.35%
Price/earnings ratio at year end	**18.73**	18.40	9.00	9.30	7.90
Current ratio	**1.68**	1.67	1.54	1.63	1.68
Long-term debt and obligations under capital leases (less current portion) to equity ratio	**.81**	.87	.53	.83	1.18

*Restated to segregate discontinued operations

CONSOLIDATED STATEMENTS OF EARNINGS

The Stop & Shop Companies, Inc., and Subsidiaries

(Dollars in thousands except those stated on a per share basis)	Fiscal Year Ended January 31, 1987	February 1, 1986*	February 2, 1985* (53 weeks)
RETAIL SALES	**$3,872,419**	$3,429,508	$3,075,928
Costs and expenses			
Cost of goods sold, buying and warehousing costs	**2,852,678**	2,567,831	2,288,905
Selling, store operating and administrative expenses	**821,096**	714,479	613,541
Depreciation and amortization of property, plant and equipment and lease acquisition costs	**72,181**	60,768	50,769
Interest on obligations under capital leases	**14,294**	11,184	9,560
Interest on mortgages	**6,981**	6,347	5,152
Interest—other (net)	**16,314**	12,123	8,833
Restructuring costs	**750**	—	—
Raxton Corp. disposition	—	—	2,500
	3,784,294	3,372,732	2,979,260
Earnings from continuing operations before income taxes	**88,125**	56,776	96,668
Federal and state income taxes	**43,725**	21,400	43,839
Earnings from continuing operations	**44,400**	35,376	52,829
Discontinued operations			
(Loss) earnings from discontinued operations, net of applicable income taxes	**(4,700)**	(5,076)	2,016
(Loss) on disposal of discontinued operations, net of applicable income taxes	**(1,300)**	—	—
(Loss) earnings from discontinued operations	**(6,000)**	(5,076)	2,016
NET EARNINGS	**$ 38,400**	$ 30,300	$ 54,845
Primary earnings per common share			
Continuing operations	**$ 3.20**	$ 2.57	$ 4.43
Discontinued operations	**(.43)**	(.37)	.17
	$ 2.77	$ 2.20	$ 4.60
Fully diluted earnings per common share			
Continuing operations	**$ 3.20**	$ 2.57	$ 3.97
Discontinued operations	**(.43)**	(.37)	.15
	$ 2.77	$ 2.20	$ 4.12

*Restated to segregate discontinued operations
See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
The Stop & Shop Companies, Inc., and Subsidiaries

(Dollars in thousands)	January 31, 1987	February 1, 1986
ASSETS		
Current assets		
Cash and marketable securities	$ 56,895	$ 35,058
Accounts receivable	41,442	40,050
Inventories	454,939	481,650
Prepaid expenses	19,868	17,141
Net assets of discontinued operations, held for disposal	30,134	—
Total current assets	603,278	573,899
Property, plant and equipment, at cost		
Land	17,652	16,081
Buildings and improvements	126,710	113,649
Fixtures, machinery and equipment	316,205	303,333
Leasehold improvements	92,609	88,605
	553,176	521,668
Accumulated depreciation and amortization	(193,082)	(179,652)
	360,094	342,016
Property under capital leases, less accumulated amortization	133,984	124,668
Net property, plant and equipment	494,078	466,684
Deferred lease acquisition costs, less accumulated amortization	52,204	67,016
Other assets	4,959	4,389
	$1,154,519	$1,111,988
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 249,351	$ 249,035
Accrued expenses	76,948	67,689
Accrued federal and state income taxes	16,434	2,459
Current portion of long-term debt	3,339	10,364
Current portion of obligations under capital leases	13,946	13,601
Total current liabilities	360,018	343,148
Deferred federal income taxes	15,983	8,865
Long-term debt		
Mortgage notes	61,187	64,635
Notes, due 1995	125,000	125,000
Other notes	27,531	37,893
Total long-term debt	213,718	227,528
Obligations under capital leases	133,772	126,777
Stockholders' equity		
Preferred stock	—	—
Common stock	14,000	13,929
Capital in excess of par value of common stock	132,375	130,012
Retained earnings	286,869	263,716
Treasury stock, at cost	(2,216)	(1,987)
Total stockholders' equity	431,028	405,670
	$1,154,519	$1,111,988

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

The Stop & Shop Companies, Inc., and Subsidiaries

(Dollars in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock at Cost	Total
BALANCE AT JANUARY 28, 1984	$ 11,771	$ 70,743	$ 204,424	$ (2,327)	$ 284,611
Net earnings			54,845		54,845
Cash dividends of $.9375 per share			(11,036)		(11,036)
Exercise of stock options	57	601			658
Conversion of debentures	2,064	56,574			58,638
Treasury stock activity, net		982		132	1,114
BALANCE AT FEBRUARY 2, 1985	13,892	128,900	248,233	(2,195)	388,830
Net earnings			30,300		30,300
Cash dividends of $1.075 per share			(14,817)		(14,817)
Exercise of stock options	37	324			361
Treasury stock activity, net		788		208	996
BALANCE AT FEBRUARY 1, 1986	13,929	130,012	263,716	(1,987)	405,670
Net earnings			**38,400**		**38,400**
Cash dividends of $1.10 per share			**(15,247)**		**(15,247)**
Exercise of stock options	**71**	**1,309**			**1,380**
Treasury stock activity, net		**1,054**		**(229)**	**825**
BALANCE AT JANUARY 31, 1987	**$14,000**	**$132,375**	**$286,869**	**$(2,216)**	**$431,028**

PREFERRED STOCK
$1 par value; authorized 5,000,000 shares, none issued or outstanding

COMMON STOCK
$1 par value; authorized 40,000,000 shares
13,891,660 issued, 143,557 in treasury, and 13,748,103 outstanding at February 2, 1985
13,928,846 issued, 118,611 in treasury, and 13,810,235 outstanding at February 1, 1986
14,000,340 issued, 102,009 in treasury, and 13,898,331 outstanding at January 31, 1987

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

The Stop & Shop Companies, Inc., and Subsidiaries

(Dollars in thousands)	Fiscal Year Ended January 31, 1987	February 1, 1986	February 2, 1985
CASH PROVIDED (USED) BY OPERATIONS			
Earnings from continuing operations	**$ 44,400**	$ 35,376	$ 52,829
Non-cash charges (credits) to earnings			
Depreciation and amortization of property, plant and equipment and lease acquisition costs	**72,181**	60,768	50,769
Deferred federal income taxes	**6,934**	277	(712)
(Loss) earnings from discontinued operations	**(6,000)**	(5,076)	2,016
Depreciation and amortization of property, plant and equipment and lease acquisition costs	**4,594**	5,881	2,361
Deferred federal income taxes	**184**	627	(173)
Reserve for net assets held for disposal, net of deferred federal income taxes	**12,200**	—	—
Net earnings and non-cash charges	**134,493**	97,853	107,090
Accounts receivable	**(11,962)**	(2,976)	(13,028)
Inventories	**(20,861)**	(71,520)	(69,833)
Prepaid expenses	**(3,313)**	(3,763)	(1,413)
Accounts payable	**6,557**	23,962	49,805
Accrued expenses	**11,407**	4,117	5,230
Accrued federal and state income taxes	**13,975**	(22,249)	(875)
Cash provided by operations	**130,296**	25,424	76,976
CASH PROVIDED (USED) BY FINANCING AND INVESTING ACTIVITIES			
Cash dividends	**(15,247)**	(14,817)	(11,036)
Sale of notes, due 1995	—	125,000	—
Common stock issued under employee stock option plans	**1,380**	361	658
Treasury stock activity, net	**825**	996	1,114
Increase in obligations under capital leases	**21,128**	34,321	11,531
Additions to other long-term debt	—	7,500	27,703
Current maturities and repayments of other long-term debt	**(20,835)**	(10,925)	(5,868)
Additions to property under capital leases, net of book value of disposals	**(37,008)**	(49,467)	(20,048)
Additions to property, plant and equipment, net of book value of disposals	**(98,808)**	(104,326)	(85,011)
Lease acquisition costs	—	(27,018)	(13,278)
Net book value of assets of discontinued operations sold	**42,215**	—	—
Other	**(2,109)**	(711)	(1,876)
Cash (used) by financing and investing activities	**(108,459)**	(39,086)	(96,111)
Increase (decrease) in cash and marketable securities	**21,837**	(13,662)	(19,135)
Cash and marketable securities			
Beginning of year	**35,058**	48,720	67,855
End of year	**$ 56,895**	$ 35,058	$ 48,720

See accompanying notes to consolidated financial statements.

1. ACCOUNTING POLICIES:

Principles of consolidation: The consolidated financial statements include the accounts of the parent company and all subsidiaries. Intercompany accounts and transactions have been eliminated.

Fiscal year: The fiscal year of the Company and its subsidiaries ends on the Saturday nearest to January 31. All years referred to in this report consisted of 52 weeks except the year ended February 2, 1985 which consisted of 53 weeks.

Marketable securities: Marketable securities are valued at cost plus accrued interest, which approximates market.

Inventories: Retail store and warehouse inventories of Supermarket grocery, Bradlees Department Store merchandise and selected Medi Mart Drug Store merchandise are valued using the last-in, first-out (LIFO) method. All other inventories at retail stores are valued at the lower of first-in, first-out (FIFO) cost or market using the retail method, and at warehouses at standard costs, approximating current costs. The effects of LIFO determinations on inventory values, net earnings and net earnings per share from those calculated by the first-in, first-out (FIFO) method are:

(Increase) Decrease (In thousands except per share amounts)	1986	1985	1984
Inventory values at end of year	**$28,057**	$24,071	$23,729
Net earnings	**$ 1,948**	$ (300)	$ 374
Net earnings per share	**$ .14**	$ (.02)	$ .03

Depreciation and amortization of property, plant and equipment: Depreciation and amortization are computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

Buildings	20 to 40 years
Fixtures, machinery and equipment	3 to 15 years
Leasehold improvements	10 to 15 years*

*or the term of the lease, if shorter.

Amortization of deferred lease acquisition costs: Amortization is primarily computed based on the longer of the remaining initial terms of the leases or 20 years. Amortization expense was $3,258,000 in 1986, $2,494,000 in 1985 and $1,847,000 in 1984.

Income taxes: Deferred taxes are provided on items that result in timing differences in the recognition of revenue and expense between tax and financial statement reporting. Investment tax credits on assets placed in service and job tax credits are accounted for as a reduction in the current provision for federal income taxes.

Store opening and closing costs: All store opening costs are expensed as incurred. Costs associated with the closing of stores are provided for when management makes the decision to close such units.

Earnings per share: Primary earnings per share are computed on the basis of the weighted average number of shares outstanding plus the common stock equivalents related to stock options, if the latter causes dilution in earnings per share in excess of 3%. Fully diluted earnings per share in 1984 assume both the conversion of 8¾% Convertible Subordinated Debentures for the periods they were outstanding and the common stock equivalents which would arise from the exercise of stock options when the total causes dilution in excess of 3%.

The average number of shares used are:

	1986	1985	1984
Primary	**13,862,988**	13,785,244	11,910,564
Fully diluted	**13,862,988**	13,785,244	13,806,789

2. DISCONTINUED OPERATIONS

During the second quarter of 1986, the Medi Mart Drug Store and Charles B. Perkins divisions were disposed of through sale. The net book value of assets sold was $42,200,000 and the sale generated a profit of $10,900,000 after income taxes of $6,431,000.

During the fourth quarter of 1986, the Company decided to phase out and dispose of its Almys Stores, Inc. subsidiary. Accordingly, the Company recorded a loss of $12,200,000, net of income tax benefits of $9,372,000, primarily to write down the assets to their net realizable values and to provide for operating losses through the closing date.

The divisions and subsidiary noted above have historically comprised the Company's other general merchandise segment and accordingly have been reported as discontinued operations and previously issued consolidated financial statements have been restated to segregate the operations of these divisions. Assets net of liabilities of Almys have been separately presented in the January 31, 1987 consolidated balance sheet at an estimated net realizable value of $30,134,000.

Selected information relating to discontinued operations is in the following schedule.

(In thousands)	1986	1985	1984
Retail sales	**$161,424**	$259,568	$171,370
Percentage of total sales	**4%**	7%	5%
(Loss) earnings of discontinued operations	**$ (8,769)**	$ (9,228)	$ 3,683
Less income tax (benefit) expense	**(4,069)**	(4,152)	1,667
	$ (4,700)	$ (5,076)	$ 2,016
Gain (loss) on disposal of discontinued operations:			
Medi Mart Drug Store and Charles B. Perkins divisions	**$ 17,331**		
Almys Department Stores	**(21,572)**		
	(4,241)		
Less income tax (benefit)	**(2,941)**		
	$ (1,300)		

3. RESTRUCTURING COSTS

During the fourth quarter of 1986, the Company announced that it will take certain steps to reduce overhead and non-store operating expenses as part of a plan to increase profitability. This program includes the elimination of positions, the integration of corporate and operating company functions and consolidation of office space. A provision of $750,000 was recorded which provides for the costs of this restructuring. This provision includes $1,300,000 in prospective severance costs net of a non-recurring gain relating to the sale of the corporate office lease.

4. RAXTON CORP. DISPOSITION

During 1984 the Company disposed of all stores operated by Raxton Corp. by selling the common stock of this wholly-owned subsidiary to another operator of women's specialty shops. Proceeds were approximately $3,390,000 which resulted in the recognition of an after tax loss of $1,222,000 ($.11 per share) in the second quarter of 1984 after provisions for operating expenses during the closeout period and post-closing expenses.

5. LONG-TERM DEBT

(In thousands)	1986	1985
Notes 10.75% due 1995.	**$125,000**	$125,000
Mortgage notes 6.4% to 16.4% (weighted average of 10.8% in 1986 and 1985) maturing annually at amounts averaging $3,569 through 1991 and $2,328 from 1992 to 2009.	**64,396**	67,735
Promissory Note 9.4% maturing $4,000 annually from 1988 to 1992 and the balance payable in 1993.	**22,225**	32,225
Other notes, maturing at various amounts through 1993.	**5,436**	12,932
	217,057	237,892
Current portion	**(3,339)**	(10,364)
	$213,718	$227,528

Long-term debt maturing 1988-1991 (In thousands)			
1988–$7,535	1989–$7,654	1990–$7,874	1991–$8,202

The mortgage notes are secured by land, buildings and improvements costing approximately $111,104,000 and by assignment of intercompany lease agreements.

Under the terms of the Promissory Note, working capital must be maintained at $45,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capital stock are in effect. As of January 31, 1987 approximately $139,000,000 of retained earnings was not so restricted.

On January 20, 1987, the Company made a series of prepayments on its Promissory Note. In accordance with the Note agreement, the Company has prepaid the 1987 semi-annual payments. Additionally, the Company exercised its option to prepay the principal amounts due on August 5, 1993 and February 5, 1994. This prepayment reduced the term of the Note by one year.

On July 16, 1985, the Company sold $125,000,000 principal amount of 10.75% notes due 1995. The notes were sold to the public at 99.75% of face value. The notes are redeemable in whole or in part at the option of the Company on or after July 15, 1992 at 100% of the principal amount thereof. The notes, which mature on July 15, 1995, are not entitled to any mandatory redemption or sinking fund provisions.

The Company has an unsecured revolving credit and term loan agreement with a group of nine banks. Under the terms of the agreement the Company can borrow to a maximum of $100,000,000 at the prime rate or lower through September 1987. Any outstanding balance at that time will be converted into a four year term loan. The agreement contains covenants in addition to those of the Promissory Note above, and requires working capital levels of $85,000,000 at January 31, 1987 with annual increases of $5,000,000 to January 31, 1991.

6. FEDERAL AND STATE INCOME TAXES

The provisions for income taxes from continuing operations are composed of:

(In thousands)	1986	1985	1984
Current:			
Federal	**$28,379**	$14,878	$34,499
State	**8,412**	6,245	10,052
	36,791	21,123	44,551
Deferred federal:			
Timing differences related to:			
Accelerated depreciation	**8,933**	4,768	3,001
Deferred gross profit from installment sales	**(483)**	420	—
Self-insurance	**(2,468)**	(3,897)	(2,709)
Capital leases	**(832)**	(917)	(840)
Store closing costs	**(38)**	(282)	755
Other	**1,822**	185	(919)
	6,934	277	(712)
Total income taxes	**$43,725**	$21,400	$43,839

Investment and job tax credits reduced the current federal provisions by $1,342,000 in 1986, $8,120,000 in 1985 and $6,075,000 in 1984.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rates to earnings before income taxes. The differences are as follows:

	1986	1985	1984
Statutory rate	**46%**	46%	46%
State income taxes, net of federal income tax benefits	**5%**	6%	6%
Investment tax credits	**(1%)**	(12%)	(5%)
Jobs tax credit (net)	**(1%)**	(3%)	(1%)
Other	**1%**	1%	(1%)
Effective tax rate	**50%**	38%	45%

7. STOCK OPTIONS

The Company maintains an Incentive Stock Option Plan which provides for the granting of options to purchase up to 1,500,000 shares of common stock to officers and key managerial personnel. Options under the plan are granted at 100% of market value at date of grant and expire in five years. Options are exercisable commencing 12 months after grant date. Changes are summarized in the following schedule.

	1986		1985	
	Shares	Grant Price	Shares	Grant Price
Outstanding, beginning of year	**310,666**	**$ 9.15-52.13**	215,751	$ 9.15-52.13
Granted	**137,850**	**$ 48.13**	137,850	$ 36.00
Expired or cancelled	**(32,118)**	**$36.00-52.13**	(6,300)	$36.00-52.13
Exercised	**(71,494)**	**$ 9.15-52.13**	(36,635)	$ 9.15-12.05
Outstanding, end of year	**344,904**	**$12.05-52.13**	310,666	$ 9.15-52.13
Exercisable, end of year	**207,054**	**$12.05-52.13**	172,816	$ 9.15-52.13
Available for future grants	**682,019**		787,751	

8. LEASED PROPERTIES

At January 31, 1987 the Company had various noncancellable leases in effect for store properties, office buildings, distribution centers and transportation, computer and other equipment.

The number of stores, included in continuing operations, owned or leased by the Company is:

	Owned	Leased	Total
Bradlees Department Stores	11	151	162
Supermarkets	34	79	113
	45	230	275

The components of "Property under capital leases" at the respective balance sheet dates are:

(In thousands)	1986	1985
Buildings and improvements	**$149,766**	$131,119
Equipment	**52,707**	50,346
Motor vehicles	**6,425**	6,425
	208,898	187,890
Accumulated amortization	**(74,914)**	(63,222)
	$133,984	$124,668

At January 31, 1987 minimum payments due under leases are:

(In thousands)	Capital Leases	Operating Leases
1987	$ 32,362	$ 69,286
1988	28,332	67,544
1989	24,356	64,022
1990	21,275	60,735
1991	19,234	57,236
Later years	194,230	581,570
Total minimum lease payments (a)	319,789	$900,393
Estimated executory costs	(10,494)	
Net minimum lease payments	309,295	
Imputed interest (rates ranging from 5.5% to 18.0%)	(161,577)	
Present value of net minimum lease payments	$147,718	

(a) Minimum payments for capital and operating leases have not been reduced by minimum sublease rentals of $2,466,000 and $49,677,000, respectively, due in the future under noncancellable subleases. They also do not include contingent rentals that may be paid under certain leases.

Contingent rentals under capital leases amounted to $434,000 in 1986, $372,000 in 1985 and $298,000 in 1984.

Total rental expense for operating leases is:

(In thousands)	**1986**	1985	1984
Minimum rental	**$64,691**	$52,082	$45,644
Contingent rental	**3,693**	3,760	3,882
Sublease rental	**(15,506)**	(12,745)	(11,293)
	$52,878	$43,097	$38,233

Contingent rentals are determined on the basis of a percentage of sales in excess of stipulated minimums for certain store facilities and on the basis of mileage for transportation equipment. Most of the leases provide that the Company pay taxes, maintenance, insurance and certain other operating expenses. Management expects that in the normal course of business leases that expire will be renewed or replaced by other leases.

9. PENSION AND POSTRETIREMENT PLANS

The Company has several non-contributory retirement plans. Eligibility for these plans is available to all employees meeting minimum age and service requirements, other than certain union employees covered by union sponsored plans. Plan benefits are based on the participants final average compensation and years of service. The Company's policy is to fund the maximum amount that can be deducted for federal income tax purposes.

The Company has adopted the provisions of The Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions, for the year ended January 31, 1987. Accordingly, the Company changed its actuarial method for financial reporting purposes from the "aggregate cost method" to the "projected unit credit cost method". As a result of the change, pension expense is $1,100,000 less than it would have been had the Company not adopted the Standard. Pension expense for 1985 and 1984 was approximately $3,000,000 and $2,500,000 respectively.

The funded status of the Company's plans at December 31, 1986 is as follows:

(In thousands)	
Actuarial present value of benefit obligations	
Vested benefit obligation	$ (42,583)
Accumulated benefit obligation	(45,883)
Projected benefit obligation	(70,398)
Plan assets at fair value	68,000
Projected benefit obligation in excess of plan assets	(2,398)
Unrecognized net obligation at 1/1/86	2,062
Unrecognized net loss	1,436
Prepaid pension cost	$ 1,100
Net pension cost included the following components:	
Service cost	$ 3,056
Interest cost on projected benefit obligation	5,054
Return on plan assets	(5,424)
Net amortization and deferral	111
Net pension cost	$ 2,797

The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 8.0% and 6.5% respectively. The expected rate of return on plan assets was 9.5%. Plan assets are primarily invested in a master trust fund and unallocated insurance contracts.

In addition to providing pension benefits, the Company also provides life insurance and health care benefits for certain retired employees meeting age and service requirements. The cost of the life insurance plans is accrued annually based upon the present value of estimated future benefit payments. The cost of the health care plans is expensed based upon claims experience. The total costs accrued for postretirement life insurance and health care plans were approximately $400,000 each year from 1984 to 1986.

10. SHAREHOLDER RIGHTS PLAN

On September 30, 1986, the Company declared a dividend of one right for each outstanding share of common stock to stockholders of record on October 10, 1986.

In general, the rights will become exercisable if a person or group acquires 20% or more of the Company's common stock or announces a tender offer for 30% or more of the common stock. Once exercisable, each right would entitle right holders to purchase 1/100 of a share of Series A Participating Cumulative Preferred Stock at a purchase price of $175. Until exercisable, the rights trade only with the common stock.

If the Company is acquired in a merger or other business combination transaction, or sells or transfers more than 50% of its earning power or assets, each right entitles its holder to purchase the number of shares of common stock of the acquiring or surviving company or, in certain circumstances, a publicly held affiliate of the surviving company worth twice the purchase price of the right. In addition, if a person or group acquires 40% or more of the Company's common stock at a price lower than the highest per share price paid by the acquirer within the prior 2 years or in the event of certain self dealing transactions with the Company, each right entitles the holder to purchase, at the purchase price, that number of 1/100ths of a preferred share equivalent to the number of common shares worth twice the purchase price. The rights may be amended at any time prior to the time they become exercisable.

The rights which expire on October 10, 1996, may be redeemed at a price of $.05 per right any time before the tenth day after a public announcement that any person or group has acquired 20% or more of the Company's common stock and this time period may be extended by the Company.

11. LITIGATION

In October, 1985 the Commonwealth of Massachusetts on behalf of its citizens filed suit against the Company and two other supermarket operators. This civil antitrust suit claims violations of Sections four and sixteen of the Clayton Act. The complaint alleges that the defendants conspired to fix the price of grocery products, meat items and dairy products for which manufacturers' coupons were distributed in Massachusetts and Connecticut from March, 1982 until late 1982. The Company has denied the allegations.

The plaintiff seeks as yet undetermined damages, which it estimates to be in excess of $1,000,000, plus attorneys fees. Plaintiff also asks that the damages be trebled. The litigation is in discovery.

In June, 1986 the State of Connecticut, on behalf of its citizens, filed civil antitrust suits in the U.S. District Court for the District of Connecticut and in the Superior Court of Connecticut against the Company and one other supermarket operator. The Federal action claims violations of Sections four and sixteen of the Clayton Act. The State action claims violations of Chapter 624 of the General Statutes of Connecticut. The complaint alleges that the defendants and their co-conspirators fixed prices of grocery products and meat items for which manufacturers' coupons were published and distributed in Connecticut between 1978 and 1982.

In the Federal action, plaintiff seeks as yet undetermined damages which it estimates to be in excess of $1,000,000, plus attorneys fees. Plaintiff also asks that the damages be trebled. The litigation is in discovery. In the State action, plaintiff seeks civil penalties of $250,000 per violation, plus attorney's fees. The parties have agreed to stay the State court action (until April 24, 1987).

The Company believes it has meritorious defenses to all three lawsuits. Moreover, the Company does not believe that these suits are material to its operations or net assets. Nevertheless, settlement discussions have been held in an attempt to avoid the cost of protracted litigation.

12. SEGMENT INFORMATION

The Summary of Sales and Operating Profit Contribution by Major Segments appears on pages 12 and 13.

PEAT
MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
One Boston Place
Boston, Massachusetts 02108

To the Board of Directors and Stockholders of
The Stop & Shop Companies, Inc.

We have examined the consolidated balance sheets of The Stop & Shop Companies, Inc. and subsidiaries as of January 31, 1987 and February 1, 1986 and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the years in the three year period ended January 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at January 31, 1987 and February 1, 1986 and the results of their operations and the changes in their financial position for each of the years in the three year period ended January 31, 1987 in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 2, 1987

The responsibility for the integrity of the financial information included in this annual report rests with management. Such information has been prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and is based on our best estimates and judgments after giving consideration to materiality.

The Stop & Shop Companies, Inc. maintains systems of internal control supported by written policies and procedures and clearly defined lines of responsibility and authority. These controls are adequate to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce the records necessary for the preparation of financial information. There are limits inherent in all systems of internal control, based on the recognition that the costs of such systems should not exceed the benefits to be derived. We believe the Company's systems provide this appropriate balance. In addition, the Company's internal auditors perform extensive audits and evaluate the adequacy of and the adherence to these controls, policies and procedures.

The Company has a code of ethics policy to guide employees in maintaining high ethical standards and in complying with the legal requirements in the conduct of its business. The policy is reviewed annually by all executive, managerial and supervisory employees, and their understanding of the policy is acknowledged in writing.

Peat, Marwick, Mitchell & Co., the Company's independent Certified Public Accountants, review and evaluate our internal accounting control systems to the extent they consider necessary in order to support their opinion on the financial statements. Their auditors' report, on page 27, contains an independent informed judgment as to the fairness of the Company's reported results of operations and financial position.

In a further attempt to assure objectivity and remove bias, the financial data contained in this report have been reviewed by the Audit Committee of the Board of Directors. The Audit Committee is composed of four outside directors who meet regularly with management, the Company's internal auditors and the independent public accountants, jointly and separately, to review internal accounting controls and auditing and financial reporting matters. The independent accountants also have free access to the Audit Committee at any time.

The Company maintains high standards in selecting, training and developing personnel to ensure that management's objectives of maintaining strong, effective internal controls and unbiased, uniform reporting standards are attained. We believe our policies and procedures provide reasonable assurance that operations are conducted in conformity with applicable laws and with our commitment to a high standard of business conduct.

Avram J. Goldberg
Chairman of the Board and
Chief Executive Officer

Joseph D. McGlinchey
Senior Vice President,
Treasurer and
Chief Financial Officer

CORPORATE MANAGEMENT

THE STOP & SHOP COMPANIES, INC.

AVRAM J. GOLDBERG
Chairman of the Board and Chief Executive Officer*

CAROL R. GOLDBERG
President and Chief Operating Officer*

DONALD J. COMEAU
Senior Vice President*

HAROLD FRANK
Senior Vice President, Chairman and Chief Executive Officer, Bradlees Discount Department Store Company*

JACK KUSHINSKY
Senior Vice President*

SAMUEL W.W. MANDELL
Senior Vice President; General Counsel, Clerk and Secretary*

JOSEPH D. McGLINCHEY
Senior Vice President; Treasurer and Chief Financial Officer*

LEWIS G. SCHAENEMAN, JR.
Senior Vice President; President and Chief Executive Officer, Stop & Shop Supermarket Company*

RUFUS E. LESTER, JR.
Group Vice President for Public Policy and Technical Affairs

HAROLD E. FINE
Vice President, Construction and Engineering

AILEEN GORMAN
Vice President, Public Affairs

ROBERT MANSON
Vice President, Information Systems

JAMES V. MORGAN
Vice President, Labor Relations

CHARLES A. RICHARDS, III
Vice President, Corporate Properties

ARTHUR S. ROBBINS
Vice President, Financial Services and Assistant Treasurer*

GLENN E. DAVIS
Corporate Controller*

PAUL H. FREISCHLAG, JR.
Assistant Treasurer and Director of Taxes*

*Corporate Officers

OPERATING COMPANY MANAGEMENT

STOP & SHOP SUPERMARKET COMPANY

LEWIS G. SCHAENEMAN, JR.
President and Chief Executive Officer

ROBERT G. TOBIN
Executive Vice President and Chief Operating Officer

BRIAN W. HOTAREK
Senior Vice President, Financial Planning and Control

JOHN WOZNIAK, JR.
Senior Vice President, Operations

HAROLD F. ALSTON
Vice President, Produce Sales and Procurement

CHARLES F. ARBING
Vice President and General Manager, Stop & Shop Manufacturing Division

RICHARD BAIRD
Vice President, Technical Services

BARRY BERMAN
Vice President, Perishable Sales and Procurement

JAMES D. CARROLL
Vice President and General Sales Manager, Boston Division

DANIEL P. CORCORAN
Vice President, Personnel

MARTIN J. DONOHOE
Vice President, Meat Sales and Procurement

CHARLES GARCHINSKY
Vice President

WILLIAM J. GRIZE
Vice President and General Sales Manager, Connecticut Division

JOHN J. LAURENDEAU
Vice President, General Merchandise Sales and Procurement

JOHN J. McWEENEY
Vice President, Real Estate

RICHARD PONTE
Vice President, Grocery and General Merchandise Sales and Procurement

FRANK A. SWEET
Vice President, Engineering, Manufacturing Division

WILLIAM M. VAUGHN III
Vice President, Distribution and Labor Relations

BRADLEES DISCOUNT DEPARTMENT STORE COMPANY

HAROLD FRANK
Chairman and Chief Executive Officer

GEORGE M. GRANOFF
Executive Vice President

C. ROBERT PEACOCK
Senior Vice President, Financial Management and Administration

LYNN K. BAKER
Vice President and General Merchandise Manager

PEGGY L. CAMPBELL
Vice President, Personnel

DANIEL E.P. DONEGAN
Vice President, Distribution

HERBERT R. DOUGLAS
Vice President and General Merchandise Manager

JAMES J. FOLINO
Vice President and Director of Stores

FRED GELFAND
Vice President, Marketing

JOHN R. GOUNARIS
Vice President and General Merchandise Manager

JOHN D. McCARTHY
Vice President, Real Estate

MICHAEL F. PARKER
Vice President, Merchandise Planning and Allocation

PETER A. VAGI
Vice President, Visual Merchandising

JOAN T. BOK
Chairman of the Board,
New England Electric System
(public utility holding company/
supplier of electricity)

JOHN G. L. CABOT
Executive Vice President,
Cabot Corporation
(chemical manufacturer)

CLIFTON B. COX
Retired; formerly Vice Chairman,
Member of the Executive Office,
The Greyhound Corporation

JULIAN I. EDISON
Chairman of the Board,
Edison Brothers Stores, Inc.
(specialty retail stores)

ALBERT S. FRAGER
Retired; formerly Senior Vice
President, Treasurer and Chief
Financial Officer of the Company

HAROLD FRANK
Senior Vice President of the
Company; Chairman and
Chief Executive Officer,
Bradlees Discount Department
Store Company

AVRAM J. GOLDBERG
Chairman of the Board and Chief
Executive Officer of the Company

CAROL R. GOLDBERG
President and Chief Operating
Officer of the Company

ROBERT J. LEVIN
Retired; formerly Vice Chairman of
the Board of the Company

RODERICK M. MACDOUGALL
Treasurer, Member of the Corporation and Member of the Board of
Overseers of Harvard University

IRVING W. RABB
Retired; Chairman of the Executive
Committee of the Board; formerly
Vice Chairman of the Board
of the Company

NORMAN S. RABB
Retired; formerly Vice Chairman of
the Board, Senior Vice President
and Assistant Treasurer of
the Company

LEWIS G. SCHAENEMAN, JR.
Senior Vice President of the
Company; President and Chief
Executive Officer, Stop & Shop
Supermarket Company

CHARLES W. SCHMIDT
Senior Vice President and Group
Executive of Raytheon Company
(diversified international technology-based company)

PHYLLIS A. WALLACE
Professor, Alfred P. Sloan School
of Management, Massachusetts
Institute of Technology

WILLIAM W. WOLBACH
Retired; formerly Chairman, South
Eleuthera Properties, Ltd. (resort
and land development company).

COMMITTEES OF THE BOARD

AUDIT
Joan T. Bok
John G. L. Cabot
Roderick M. MacDougall
Phyllis A. Wallace

COMPENSATION
John G. L. Cabot
Clifton B. Cox
Irving W. Rabb
William W. Wolbach

EXECUTIVE
Albert S. Frager
Avram J. Goldberg
Carol R. Goldberg
Irving W. Rabb
Charles W. Schmidt

FINANCE
Julian I. Edison
Albert S. Frager
Avram J. Goldberg
Irving W. Rabb
Norman S. Rabb
Charles W. Schmidt
William W. Wolbach

NOMINATING COMMITTEE
Clifton B. Cox
Avram J. Goldberg
Carol R. Goldberg
Norman S. Rabb
Phyllis A. Wallace
William W. Wolbach

SOCIAL RESPONSIBILITY
John G. L. Cabot
Julian I. Edison
Robert J. Levin
Roderick M. MacDougall

PENSION AND BENEFITS
Avram J. Goldberg
Carol R. Goldberg
Phyllis A. Wallace

Seated, left to right:
Albert S. Frager, Carol R. Goldberg,
Norman S. Rabb, Charles W.
Schmidt, Avram J. Goldberg,
Clifton B. Cox

Standing, left to right:
William W. Wolbach, Lewis G.
Schaeneman, Jr., John G. L. Cabot,
Irving W. Rabb, Julian I. Edison,
Robert J. Levin, Harold Frank,
Phyllis A. Wallace, Roderick M.
MacDougall. Not pictured:
Joan T. Bok.

Over the years, The Stop & Shop Companies has developed and refined a corporate philosophy based on social responsibility. It has always been our belief that a corporation is more than a conglomeration of physical and financial assets. Because a corporation is created, tended and nourished by people, it must reflect and act consistently with a set of beliefs and principles. We believe that our commitments to our customers, employees and investors also extend to our communities. We have formalized our social commitments by establishing programs to enhance opportunities in the workplace, and to encourage voluntarism in our communities. These programs include:

PHILANTHROPY Established in 1951, the Stop & Shop Foundation has donated nearly eight million dollars to thousands of community organizations and programs. Over the years, we have strengthened our commitment in several areas. We consider services to the elderly a priority, and support projects aimed at ensuring full, healthy and independent participation by elders in all that society has to offer. We also remain dedicated to programs addressing employment and job skills training for teenagers and young adults. We continue to assist traditionally underserved populations through support of minority job training and scholarship funds; low-income community and family support services, and programs which ensure equal access to quality health care services.

CONSUMER AFFAIRS AND VOLUNTARISM Long recognized as a leader in providing information to assist consumers in making informed decisions in the marketplace, our Company also takes great pride in its extensive hands-on involvement in community projects. We work closely with high school students at the Humphrey Occupational Resource Center in Boston, and reach many others through our sponsorship of Junior Achievement programs. We are also affiliated with Second Harvest, a nationwide network of food banks. Our Supermarket Company co-sponsors health screenings with numerous local public health organizations, and, in conjunction with the Food & Drug Administration, has developed an exemplary nutrition awareness program, "Facts About Food". Child safety is also a year-round concern for our Company. We conduct awareness campaigns such as "Strong Kids, Safe Kids", and "Kids, Drugs & Alcohol", and actively promote and advocate child passenger safety.

We are proud of our people's extensive and meaningful participation in our communities. In 1986, we instituted the Sidney R. Rabb Volunteer Service Award to recognize their contributions and to reinforce our strong support of employee voluntarism.

ETHICAL STANDARDS We have a comprehensive Code of Ethics which governs our employees' behavior in vendor and business relationships, and covers policies related to contributions and acceptance of gifts, conflict of interest and antitrust compliance.

AFFIRMATIVE ACTION We have always maintained a strong commitment to non-discriminatory policies and equal opportunity goals. We are proud to be one of a small group of companies nationwide participating in a cooperative agreement with the NAACP's Economic Development office. This effort has enabled us to make significant increases in minority hiring and in procurement from minority-owned businesses and financial institutions.

EMPLOYEE RELATIONS We offer a matching gifts program in education, and recently doubled the amount of our Stop & Shop Scholarship Awards. Each year, ten awards are given on a competitive basis to employees or members of their immediate family. In 1986, our Company established pre-tax programs for financing health and dependent care, helping our people to reduce such expenses.

Thus, our commitment to social responsibility takes many forms. We will continually strive to better the quality of life for our employees and neighbors with the enthusiasm and dedication which have long been our hallmark.

ANNUAL MEETING:
May 27, 1987 at 10:00 A.M.
The First National Bank
of Boston
First Floor Auditorium
100 Federal Street
Boston, Massachusetts 02106

TRANSFER AGENT AND REGISTRAR:
The First National Bank
of Boston

INDEPENDENT ACCOUNTANTS:
Peat, Marwick, Mitchell & Co.

COUNSEL:
Goodwin, Procter & Hoar
Sherin & Lodgen

GENERAL OFFICES:
P.O. Box 369,
Boston, Massachusetts 02101

COMMON STOCK TRADED ON:
Boston Stock Exchange
New York Stock Exchange

AUTOMATIC DIVIDEND REINVESTMENT PLAN:
The Stop & Shop Companies, Inc.'s transfer agent offers an Automatic Dividend Reinvestment and Cash Stock Purchase Plan which gives stockholders a convenient, inexpensive method of purchasing additional shares of the Company's stock with quarterly dividends and optional cash investments. For further details write:
The First National Bank
of Boston
Automatic Dividend
Reinvestment and
Cash Stock Purchase Plan
P.O. Box 1681
Boston, Massachusetts 02105

FORM 10-K:
Stockholders may obtain a copy of the Company's report on Form 10-K to be filed with the Securities and Exchange Commission, without charge, by writing to:
Public Affairs
The Stop & Shop Companies, Inc.
P.O. Box 369
Boston, Massachusetts 02101

Design: Corporate Graphics Inc, New York/Los Angeles.

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